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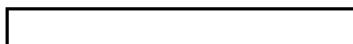
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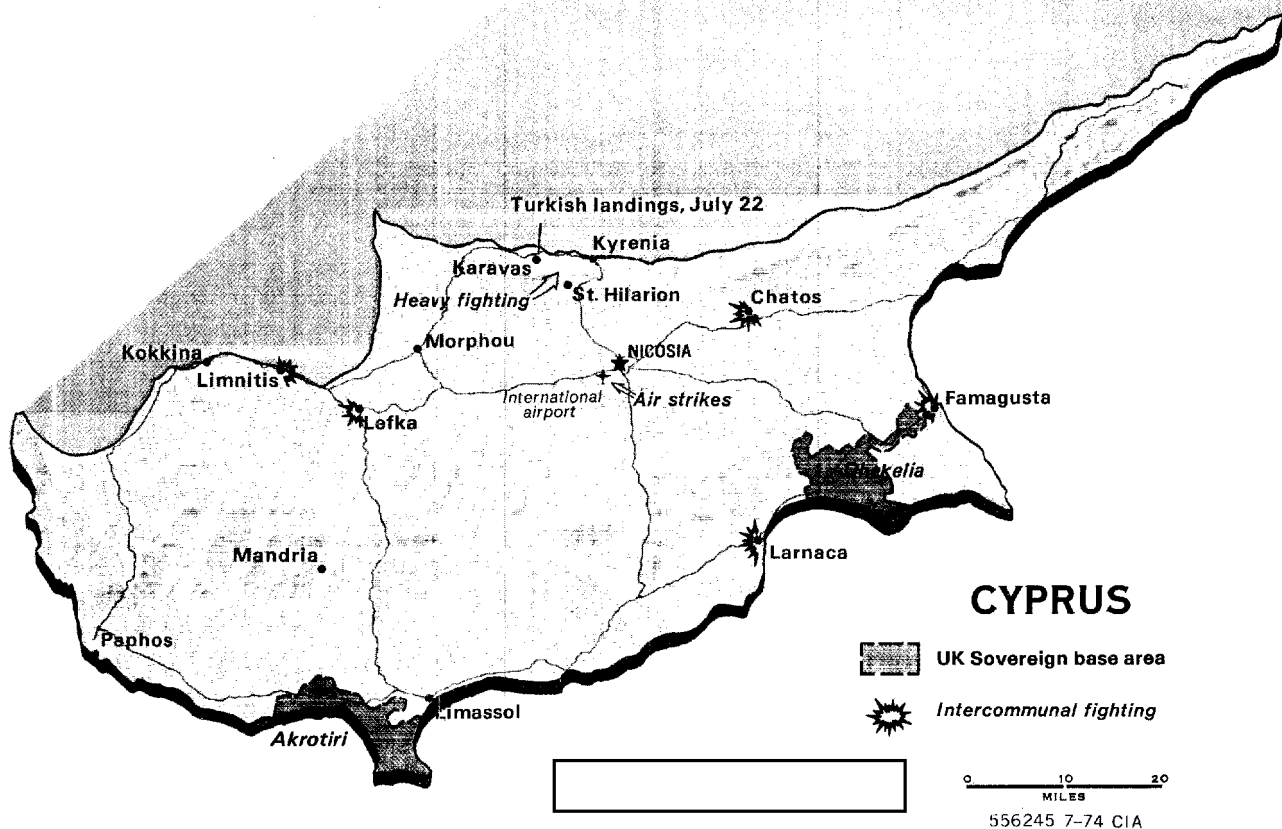
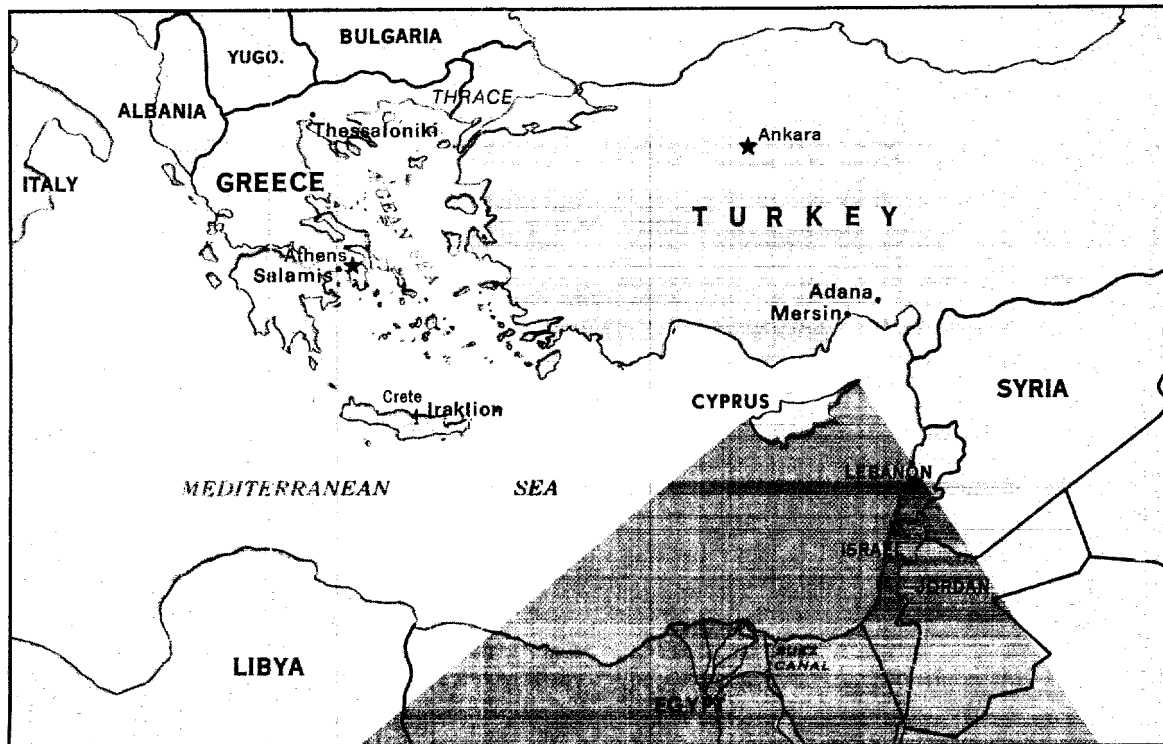
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CYPRUS

Cease-fire violations, numerous yesterday afternoon, virtually ceased with the approach of darkness last night. Clashes are expected to resume today.

Barring collapse of the cease-fire, Greece and Turkey have agreed to meet in Geneva this week--probably tomorrow--to begin peace talks in response to the Security Council's appeal for prompt negotiations. The two nations and Britain are meeting as the guarantors of the 1960 treaty granting independence to Cyprus.

The military activity of both sides prior to the cease-fire indicates that they continue to jockey for tactical advantages in the area north of Nicosia. Turkish forces attacked National Guard positions at Geunyeli, west of the Kyrenia-Nicosia road. Securing this area would improve the Turks' positions for an assault against the Nicosia airport, which they bombed last evening. To the east of the road, however, Greek Cypriot forces occupy villages that put them in a position to launch attacks on the Turkish flank.

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Soviet military reaction to the Cyprus situation continues low key. Soviet naval units remain west of Cyprus. Moscow has informed the US that a ship will arrive at Larnaca, on the southern coast, to evacuate Soviet civilians.

In a press conference yesterday, Turkish Prime Minister Ecevit described the Turkish position as "irrevocably established." He stressed that Kyrenia would remain in Turkish hands to provide an opening to the sea. Maintaining that his country was now ready for a negotiated solution, Ecevit said Turkey would go to Geneva without any preconditions.

Rumors of a possible coup in Greece circulated widely in Athens yesterday. The Greek government officially labeled the rumors false.

At the UN Security Council meeting yesterday, attention focused on beefing up the UN peace-keeping force on Cyprus. Secretary General Waldheim believes the 2,300-man force must be augmented to monitor the cease-fire. Waldheim asked those countries that now have contingents serving there--Australia, Austria, Britain, Denmark, Ireland, Finland, Canada, and Sweden--to consider increasing their troop contributions. Negotiations are now under way as to the exact numbers required; speculation ranges between 4,000 and 5,000.

The peace-keeping forces, which originally were sent to Cyprus in 1964 to prevent intercommunal fighting, have been severely circumscribed in their attempts to

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fulfill their mandate during the fighting.

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PORTUGAL-AFRICA

The new government in Lisbon has reiterated its willingness to make major concessions to the rebel group in Portuguese Guinea and expects a solution soon. Moves toward an agreement were in progress prior to the recent cabinet changes.

Foreign Minister Soares told the US ambassador in Lisbon that one of his first moves after being reappointed last week was to inform Senegalese President Senghor of Lisbon's desire to reopen immediately negotiations with Portuguese Guinea. Senghor has been serving as a channel between the Lisbon government and the rebels in Portuguese Guinea.

Portugal's newly appointed permanent representative to the UN, Veiga Simao, has told his US counterpart that Portugal will recognize the independence of Portuguese Guinea by August 15. Simao stated that President Spinoza intends to visit the territory and consult the local People's Assembly on the future status of the province. The assembly is expected to opt for independence.

Portugal would then agree and sponsor Portuguese Guinea's entry into the UN. In return, Lisbon expects the rebels to agree to a later separate settlement for the Cape Verde Islands, which Lisbon does not want to give up. According to the Portuguese representative, secret talks are now going on in Bissau between the Portuguese and the rebels. There is no other evidence that talks are actually in progress, but the Portuguese seem to be expecting a favorable reply from the rebels to these terms.

Lisbon appears to want assistance in settling the status of Angola and Mozambique. To safeguard the interests of Portuguese settlers and foreign investors, Simao suggested that the UN provide guarantees, as well as supervise referendums in the two colonies. Simao said that Lisbon would soon send him an outline of the formula to be proposed for the referendums.

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ETHIOPIA

Ethiopian Emperor Haile Selassie yesterday approved the appointment of Mikael Imru as prime minister, in place of Endalkatchew Makonnen. Mikael was the choice of the politically dominant Armed Forces Coordinating Committee.

The appointment indicates that for now the basically civilian complexion of the government will be maintained. Some members of the coordinating committee still favor a predominance of military officers in the cabinet, however, and further changes are likely.

Mikael, in his mid-forties, is a good administrator and held a minor post in the Endalkatchew government. Although an aristocrat, he has long favored changes in the government and social system, and he may prove able to work effectively with the committee. When strikes and mutinies precipitated political changes early this year, Mikael was one of the civilians mentioned by the military moderates for prime minister. The main question surrounding Mikael's present appointment is whether the committee will give him enough authority to get the paralyzed government machinery moving again.



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GERMANY

West German President Scheel yesterday signed into law the bill establishing a Federal Environmental Office in West Berlin.

Scheel delayed signing the bill for a week and this may have prompted the Soviets and East Germans to reiterate their opposition to the office. Both Moscow and East Berlin have indicated that they might find it necessary to restrict transit rights of those working for the environmental office.

Some West German employees of the office have been working in West Berlin for several months. By the end of the year, as many as 204 people may work in the office.

Employees of the office are certain to encounter problems when they try to use land routes across East Germany. Identification is usually demanded by East German border guards.

Bonn and the West Berlin Senat may consider authorizing a form of personal documentation for the employees of the office that does not disclose the specific nature of their employment with the Bonn government. A Soviet diplomat indirectly suggested use of such a loophole recently, when he said that staff members of the environmental office would not be hindered in their travel unless they clearly disclosed their relationship with the office.

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UNITED KINGDOM

The fiscal measures announced by Chancellor of the Exchequer Healey yesterday are designed to cut inflation and will mildly stimulate the economy during the rest of the year. With elections in the offing, the Labor government has apparently chosen to worry more about unemployment and recession than the trade deficit.

Major features of the new tax package include:

- a drop in the value-added tax from 10 to 8 percent;
- an increase of \$115 million in food subsidies to producers;
- a cut in the planned real estate tax increase;
- a relaxation in dividend restrictions.

Healey estimates that the drop in the value-added tax and food subsidies will cut inflation by 1.5 percent over the next three months. The price statistics should begin to look better in the early fall, about the time some commentators expect new elections. Over the longer run, the tax cuts could add to inflationary pressure by increasing the budget deficit.

The net effect of the tax changes is to pump about \$1.2 billion into the economy, thus largely offsetting the cuts made in the budget deficit in March. These measures, coupled with the tax relief of \$1.1 billion that the opposition Conservatives and Liberals forced through Parliament last week, add up to a package that will be mildly stimulative.

In response to heavy pressure from the business community, London has relaxed restrictions on dividend increases. This measure is more likely to be a palliative for a depressed stock market than a stimulus for

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much-needed investment because many firms already have cash problems and the business outlook remains murky.

As mild as they are, Healey's tax measures give Britain the distinction of being the first major industrialized country to relax its hold on the economy since oil prices were increased last year. Indeed, several countries, notably France and Italy, have recently initiated austerity programs to shore up their balances of payments.

[REDACTED]

PAKISTAN

Loans from oil-producing Muslim states, together with \$500 million in new aid commitments from consortium countries and the World Bank, and the recent rescheduling of old debts will enable Pakistan to meet its growing import bill, estimated at \$1.7 billion this year.

Islamabad last week confirmed that the Shah will extend a \$580-million loan offered during Prime Minister Bhutto's visit to Iran last April. [REDACTED]

[REDACTED]

The Iranian loan is the fourth extended to Pakistan recently by an oil-rich Muslim nation. The terms of the loans are very soft; their primary purpose is to ease balance-of-payments difficulties triggered by increased petroleum costs. [REDACTED]

[REDACTED]

[REDACTED]

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FOR THE RECORD

Laos: Prime Minister Souvanna Phouma continues to make slow but steady progress in recovering from the effects of the heart attack that he suffered on July 12. His prognosis has improved and his condition is now free from complications. Souvanna is still not expected to be able to resume full government business for at least two months. In the meantime, he has again made it clear that he wants no major decisions made during his convalescence and that deputy prime ministers Leuam Insisiengmay and Phoumi Vongvichit are to share equally in handling routine government business. [REDACTED]

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USSR: The Soviet party's Central Committee is expected to convene today for a two-day meeting prior to the opening of the Supreme Soviet, scheduled for July 25. The Central Committee will hear a report from General Secretary Brezhnev and will put its seal of approval on Politburo decisions taken since the last plenary meeting in December. The Supreme Soviet, in its first session since the elections last month, will announce the composition of the new Soviet government. [REDACTED]

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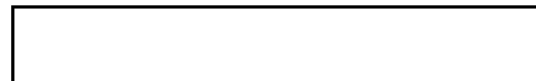
Iran-UK: The \$1.2-billion loan to the British government agreed to yesterday is at commercial rates of interest, which approximate what the Shah could get by investing in Eurodollars. The loan, like the \$1-billion Iranian advance to France, is to be used over a three-year period; it will be repayable within five years after being drawn. London plans to allocate the loan among public corporations. It will help offset the UK's current account deficit, estimated at about \$10 billion this year. The loan could also lead to further strengthening of the pound. [REDACTED]

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